



January 4, 1993

To: Hank Pietraszek

From:  Alan MacKenzie

cc: Don Patton  
Will Hall  
George Schaffer  
Yasu Hasegawa  
Nancy Kincheloe  
Jeff Peterson

Re: **OIG Audit of Medicare Reimbursed Chemotherapy Drugs**

Attached is Nancy Kincheloe's summary of the just released OIG report on physician costs associated with chemotherapy drugs. The purpose of this OIG audit was essentially to determine if AWP has served HCFA as an accurate measure in setting drug allowables for the Medicare carriers.

Bottom line to the OIG report is that they find AWP to be an inflated indicator of what drugs actually cost physicians. The OIG made numerous recommendations to HCFA on revisions to their reimbursement system. As Nancy points out in her write-up, HCFA has responded by saying they want OIG to do a more expansive study and that they (HCFA) also plan to have selected Medicare carriers do surveys on physician acquisition costs for high volume and high cost drugs. If HCFA truly wants this survey data, and if they only are just beginning this process now, then it will take time before this analysis is complete.

The more immediate question is what HCFA will publish in its carrier instructions on how to set allowables for drugs. These instructions which contain what each individual Medicare carrier will follow in reimbursement policy, are due out around the 1st of the year. Last January this section of the instructions were left blank, in essence telling the carriers to default to AWP for the time being.

Nancy and I are going to Washington on Monday, January 11, for a meeting of the Health Care Lawyers Association on reimbursement for drugs and technology. HCFA is well represented at this meeting, and I'm certain this issue will be well discussed.

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## **OIG Report on Physician Costs Associated with Chemotherapy Drugs**

### **Study Criteria**

- **OIG did audits of five physicians in New York State**
- **Additional discussion was done with HCFA, ASCO and the Medicare carriers for New York and Tennessee**
- **OIG contacted manufacturers of chemotherapy drugs and the publisher of the Red Book**
- **Reviewed "high dollar volume chemotherapy drugs" which were defined as those which Medicare Part B allowed at least \$1 million for each drug during 1989**
- **Thirteen drugs were studied representing \$67.8 million nationwide in 1989**
- **Reviewed payments between January and July, 1991 for one NY carrier and April to June 1991 for the other carrier**

### **Comments**

- **The Medicare contractors contacted generally base the payment for drugs on the estimated costs obtained from wholesale guides such as the Red Book**
- **The Tennessee Medicare carrier bases its payment for five chemotherapy drugs on physicians invoice prices**
- **Major manufacturers informed OIG that they establish a single price for physicians throughout the entire country, regardless of quantities ordered**
- **Major manufacturers informed OIG that Red Book, and not the manufacturers, determines AWP. Red Book officials advised OIG that manufacturer input is their primary source of pricing information**
- **Analysis of one doctor's records indicated that the total cost for drugs claimed was 48 percent of AWP**

### **Results**

- **For the physicians surveyed, the 13 chemotherapy drugs can be purchased at amounts below AWP and that AWP is not a reliable indicator of the cost of a drug to physicians**
- **Costs associated with wasted and spoiled drugs, spilled drugs, storing the drugs, and bad debts have little impact on physician costs**

### OIG Conclusions

- **OIG recommended that HCFA substantiate these conclusions either through a sample of physicians and patients nationwide or by other means to assure widespread applicability:**
  - **The 13 high dollar volume chemotherapy drugs can be purchased at amounts below AWP**
  - **AWP is not a reliable indicator of the cost of a drug to physicians**
  - **Usually, the most economical method for ordering drugs is directly from the manufacturer**
  - **Under the present Medicare coding system, physician claims do not always reflect the dosage actually administered**
  - **Medicare payments partially compensate for the costs of wasted drugs**
  - **In certain instances, credits to physicians for spoiled drugs are allowed by manufacturers and wholesalers**
  - **Spillage is a relatively rare occurrence and has little impact on physicians costs**
  - **The incremental costs incurred by physicians for storing the drugs are insignificant and should not impact the cost of providing the drug**
  - **Bad debts attributed to Medicare beneficiaries are less than 1 percent of the amount owed to the physicians.**

### HCFA Response

- **HCFA did not agree with the recommendation encouraging physicians to utilize the most economical means available to purchase drugs, stating that they lack assurance that a substantial number of physicians can obtain drugs at the lowest price available. HCFA, therefore, proposes to perform surveys of physicians to determine the estimated acquisition cost to physicians for chemotherapy drugs**
- **The OIG agrees that further study of the costs and payments for chemotherapy drugs is warranted. Accordingly, HCFA plans to have **selected Medicare carriers survey physicians' costs** for high volume and high cost drugs during FY1993. Unless they have evidence to the contrary, HCFA plans to use a statistical measure of the survey results, such as the average or median to determine the EAC.**
- **Otherwise, HCFA generally agreed with the OIG recommendations**